

**STATE OF MICHIGAN
DEPARTMENT OF LABOR & ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE SERVICES**

Before the Commissioner of the Office of Financial and Insurance Services

In the Matter of:

Redstone Energy Corporation

Enforcement Case No. 05-3500

Jay Merkle

Eric Merkle

Craig Massey

Sharon Stickel

Respondents

*Issued and entered
on July 21, 2006
by Richard D. Lavolette
Chief Deputy Commissioner*

**ORDER TO CEASE AND DESIST,
SUMMARILY REVOKING CERTAIN EXEMPTIONS,
REQUIRING RESCISSION OFFER,
AND IMPOSING CIVIL PENALTIES**

The Office of Financial and Insurance Services (hereafter "OFIS") of the Michigan Department of Labor and Economic Growth, pursuant to the Administrative Procedures Act of 1969, 1969 PA 306, as amended; MCL 24.201 *et seq.*; the Michigan Uniform Securities Act, 1964 PA 265, as amended; MCL 451.501 *et seq.* (hereafter "Act"), and the rules promulgated under the Act, says that:

A. FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. Respondent Redstone Energy Corporation (hereinafter “Redstone”) is a corporation organized under the laws of the State of Nevada with its principal place of business located at 101 Convention Center Drive, Suite 700, Las Vegas, Nevada 89109. Redstone’s mailing address is P.O. Box 27740, Las Vegas, Nevada 89126.
2. Respondent Jay Merkle (hereinafter “J. Merkle”) is the President and a Director of Redstone. His address is 781 Progress Court, Williamston, Michigan 48895.
3. Respondent Eric Merkle (hereinafter “E. Merkle”) is the Senior Vice President and a Director of Redstone. His address is 781 Progress Court, Williamston, Michigan 48895.
4. Respondent Craig Massey (hereinafter “Massey”) is the Vice President of Finance for Redstone. His address is 781 Progress Court, Williamston, Michigan 48895.
5. Respondent Sharon Stickel (hereinafter “Stickel”) is the Treasurer, Secretary, and a Director of Redstone. Her address is 781 Progress Court, Williamston, Michigan 48895. Redstone, J. Merkle, E. Merkle, Massey, and Stickel are collectively referred to hereinafter as “Respondents.”
6. Redstone indicates that it is a company in the developmental stage seeking to acquire domestic income-producing oil, gas, and mineral leases.
7. From September 2004 through February 2005, Redstone offered two types of “Preferred Stock”: (a) Redstone’s “Series 2004 Class A,” which offered a 3% return per month; and (b) Redstone’s “Series 2004 Class B,” which offered a 2% return per month. Redstone’s “Series 2004 Class A” and “Series 2004 Class B” securities offering are collectively referred to hereinafter as the “2004 Stock Offering.”
8. In lieu of providing potential investors with a complete prospectus, Respondents distributed a four-page “Summary of the Memorandum” (“Summary”) to potential investors, including at least one Michigan resident.
9. The Summary distributed by Respondents lacked complete disclosure regarding the organization’s operations. Specifically, the Summary failed to provide current financial information and the financial statements for Redstone, and failed to disclose information pertaining to Redstone’s management and operating history.

WHEREAS, Section 101(2) of the Act, MCL 451.501(2), prohibits the omission of material facts necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, in connection with the offer or sale of a security; and

WHEREAS, Redstone failed to provide potential investors in Redstone with current financial information and the financial statements for Redstone in the Summary that was provided in connection with the securities offering; and

WHEREAS, Redstone has failed to disclose information pertaining to Redstone's management and its operating history in the Summary that was provided in connection with the securities offering; and

WHEREAS, based on the foregoing, OFIS staff recommends that the Commissioner find that Respondents Redstone, J. Merkle, E. Merkle, Massey, and Stickel have engaged in acts and practices that violated Section 101(2) of the Act, MCL 451.501(2), and the Rules promulgated under the Act, and

WHEREAS, this action is necessary, appropriate, and in the public interest for the protection of the public and is consistent with the purposes fairly intended by the policy and provisions of the Act.

B. ORDER

Based upon the foregoing findings of fact and conclusions of law, **IT IS HEREBY ORDERED**, pursuant to Section 408 of the Act, MCL 451.808, that:

1. Respondents Redstone, J. Merkle, E. Merkle, Massey, and Stickel shall immediately **CEASE AND DESIST** from violating the Act, including but not limited to Section 101(2) of the Act, MCL 451.501(2), by refraining from making any untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements made not misleading in connection with the offer or sale of any security in the State of Michigan;
2. Based upon Respondents Redstone, J. Merkle, E. Merkle, Massey, and Stickel's violations of the Act, and because the Administrator finds that it would be in the public interest, Respondents' exemptions under Section 402(b) of the Act, MCL 451.802(b) are hereby **SUMMARILY REVOKED** for all purposes provided under Section 408(c) of the Act, MCL 451.408(c) including but not limited to Respondents' right to engage in transactions otherwise exempt under Section 402(b) of the Act, MCL 451.802(b) in the future absent compliance with the registration provisions of the Act;
3. Respondents shall provide notice to all citizens of the State of Michigan, whether individuals or business organizations, that purchased Redstone's "Series 2004 Class A" or "Series 2004 Class B" securities offering (the "Michigan Investors"), informing them that these securities were offered in violation of Section 101(2) of the Act, MCL 451.501(2), because the offering materials failed to include Redstone's current financial information and financial statements and failed to disclose information pertaining to Redstone's management and operating history. The notice shall further inform the Michigan Investors that upon the investor's

request and tender of the securities back to Redstone, Respondents will refund the consideration paid for such securities, together with costs and interest at the rate of 6% per year from the date of payment, less the amount of income received on the security, as provided by Section 410(a) of the Act, MCL 451.810(a). In the event that the Michigan Investor no longer owns the securities, Respondents shall refund the amount that would be payable upon tender as set forth above, less the value of the security when the investor disposed of it, together with interest at the rate of 6% per year from the date of disposition. The notice containing the rescission offer shall be accompanied by documents making full written disclosure about Redstone's financial, business condition, and the financial and business risks associated with the retention of the securities. The notice must additionally provide the Michigan Investors at least thirty (30) days from the date of receipt in which to accept or reject the rescission offer. Respondents shall obtain OFIS' approval of the notice containing the rescission offer and accompanying disclosure documents before providing them to the Michigan Investors.

Upon the acceptance of the rescission offer and tender-back of the security by any Michigan Investor, Respondents shall promptly remit any amounts due and owing to the Michigan Investor pursuant to the above calculations; and

4. Having considered Respondents' present actions, the possibility of Respondents' future violations of the Act, the actions taken by Respondents in an effort to mitigate the harm their conduct caused or may cause to the public, and other facts and circumstances relating to this matter, a **CIVIL PENALTY** is hereby imposed against each of the Respondents as follows:

- (a) Redstone shall pay a civil penalty in the amount of \$1,000.00.
- (b) J. Merkle shall pay a civil penalty in the amount of \$1,000.00.
- (c) E. Merkle shall pay a civil penalty in the amount of \$1,000.00.
- (d) Craig Massey shall pay a civil penalty in the amount of \$1,000.00.
- (e) Sharon Stickel shall pay a civil penalty in the amount of \$1,000.00.

Respondents shall pay these civil penalties within thirty (30) days after the date this Order is entered.

The Administrator reserves the right to pursue such other and further relief against Respondents that she deems necessary and appropriate, including but not limited to bringing an action in circuit court to secure a permanent or temporary injunction, restraining order, order requiring an accounting or disgorgement, and/or writ of mandamus against the Respondents, or for the appointment of a receiver or conservator with respect to Respondent Jordan River or its assets.

PLEASE BE ADVISED that your failure to comply with the terms of this ORDER may subject you to additional sanctions, fines, and/or penalties, including but not limited to the following:

- (a) The imposition of additional civil penalties of not more than \$1,000 for each violation of this Act, not to exceed a total of \$10,000; and/or
- (b) Pursuant to Section 409 of the Act, MCL 451.809, any willful violation of certain provisions of the Act shall, upon conviction, result in a fine of not more than \$25,000 for each violation, or imprisonment for not more than 10 years, or both.

C. REQUEST FOR HEARING

You may file with the Administrator **within 15 days after service of this Order** a written request for a hearing. The Administrator, within 15 days after your filing, shall issue a notice of hearing and set a date for the hearing. Any request for a hearing should be addressed to: The Office of Financial and Insurance Services, Attention: Hearing Coordinator Dawn Kobus, P.O. Box 30220, Lansing, Michigan 48909.

If you do not request a hearing, or it is not ordered by the Administrator within 15 days, this Order will stand as entered and will be **FINAL**.

It is important to understand that any statements that you present in response to this Order may be used against you at a hearing. It is also important to understand that you have the right, at your own expense, to have an attorney assist you at a hearing.

Any other communication regarding this Order should be addressed to the Office of Financial and Insurance Services, Attention: William R. Peattie, P.O. Box 30220, Lansing, Michigan 48909.

MICHIGAN DEPARTMENT OF
LABOR & ECONOMIC GROWTH



By: _____
Richard D. Lavolette,
Chief Deputy Commissioner
Office of Financial and Insurance Services

Dated: July 21, 2006